Office of the Secretary
Service Date
April 15, 2002

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ORDER APPROVING THE COSTS TO BE INCLUDED IN THE 2002/2003 PCA YEAR FOR THE IRRIGATION LOAD REDUCTION PROGRAM AND ASTARIS LOAD REDUCTION AGREEMENT.	**CASE NO. IPC-E-01-34** **ORDER NO. 28992**

On October 18, 2001, Idaho Power Company filed an Application requesting that the Commission issue an Order authorizing it to include the costs of the Irrigation Load Reduction Program and Astaris Load Reduction Agreement in the 2002/2003 Power Cost Adjustment ("PCA"). Notice of Application and Notice of Modified Procedure was issued on November 9, 2001. Order No. 28893. On November 30, 2001, the Commission granted intervention to the Idaho Irrigation Pumpers Association, Inc. and Astaris LLC.

The Commission Staff, the Idaho Irrigation Pumpers Association and Idaho Power Company have filed written comments. Idaho Power also filed reply comments. The Commission also received more than 200 comments from members of the public. The Idaho Irrigation Pumpers Association also filed an application for intervenor funding. After considering the record in this matter, the Commission grants Idaho Power Company's Application in part and denies it in part.[1] The Commission also grants the Irrigation Pumpers' intervenor funding request.

BACKGROUND

Irrigation Load Reduction Program

On March 14, 2001, the Commission approved Idaho Power's Irrigation Load Reduction Program that authorized payments to irrigation customers who committed to reduce their energy consumption by at least 100,000 kWh between March 1, 2001 and November 30, 2001. Interlocutory Order No. 28676, Case No. IPC-E-01-3. Later, on May 25, 2001, the Commission issued its final Order in this case that provided detailed findings regarding this

[1] This record includes the prefiled direct testimony and exhibits of Idaho Power employees Maggie Brilz and Darrell R. Tomlinson.

Program. In regard to the costs of this Program, the Commission stated, "[t]he direct costs and lost revenue impacts of this Program may be treated as a purchased power expense in the Company's Power Cost Adjustment ("PCA") mechanism." *Id*. at p. 12 (emphasis added). The Commission also required Idaho Power to record the purchase costs paid to irrigators for their energy load reductions and any calculated lost revenue in separate purchased power subaccounts so that they could easily be identified in an audit.[2] *Id.*

On September 27, 2001, Idaho Power held a meeting with all interested parties to discuss its proposed methodology for computing reduced revenue impacts. This proposal included three components: 1) the energy component addressed the revenue impact associated with the reduction in billed kWh as a result of the Irrigation Load Reduction Program; 2) the demand component addressed the revenue impact associated with the reduction in billed kW as a result of the Program; and 3) the load reduction offset component reversed the load change adjustment to power supply expenses included in the PCA methodology. Application at p. 3. In the present Application, Idaho Power has requested that the Commission approve this methodology for the calculation of reduced revenue as set forth in the testimony of Maggie Brilz, attached to the Company's Application.

The Company has calculated that the Idaho jurisdictional portion of the Irrigation Load Reduction Program costs that should be included in the 2002/2003 PCA through September 2001 is $58,592,015.96. The Company explains that this total amount includes direct costs, reduced revenues and interest. *Id.*

Astaris Load Reduction Program

On April 10, 2001, the Commission approved the Letter Agreement Amendment to the Electric Service Agreement ("ESA") between Idaho Power and Astaris LLC (a successor to FMC Corporation). Order No. 28695. The Letter Agreement allowed Astaris to receive payment from Idaho Power for a 50 MW firm load reduction at its Pocatello manufacturing facility. *Id*. This load reduction comes from the 120 MW first block service Astaris takes under the ESA.[3] *Id.* This load reduction was made available to Idaho Power for 24 months beginning April 1, 2001 and ending March 31, 2003. *Id*. Under the terms of the Letter Agreement, Idaho

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[2] For purposes of this Order the terms "reduced revenues" and lost revenues are synonymous.

[3] The first block service is "take or pay" meaning that Astaris pays for the entire 120 MW whether it uses it all or not.

Power pays Astaris 86.5% of the projected forward market prices set at the time it was executed. *Id*. The price for the 50 MW load reduction averages approximately 15.9¢ per kWh over the term of the Agreement. *Id*. The Commission approved the inclusion of the direct costs resulting from the Letter Agreement in the Company's PCA. *Id*.

In the present Application, Idaho Power states that the direct costs that have accrued under this Program through September 2001 total $42,212,914 including interest. Application at p. 4. Idaho Power states that reduced revenue is not an issue in this Program. *Id.* at p. 4.

Supplemental Filings

Idaho Power also requested authorization to provide updated costs to the Commission so that it could issue an order authorizing the total amount to be deferred to the 2002/2003 PCA for the year 2001. Application at p. 4.

Summary

In summary, Idaho Power requested that the Commission issue an Order approving the methodology for the calculation of reduced revenue resulting from the Irrigation Load Reduction Program, and for an Order approving the costs to be included in the 2002/2003 PCA year for these two Programs in the amount of $100,804,108.30 that have accrued through September 2001. Idaho Power further requested authority to supplement this filing as additional costs are incurred for these Programs. Application at p. 6.

COMMENTS

Public Comments

The Commission received 201 comments from Idaho Power customers. All of these comments opposed Idaho Power's Application. These comments focused on recent rate increases and asserted that these load reduction agreements were bad business decisions that Idaho Power alone should pay for.

Idaho Irrigation Pumpers Association, Inc.

The Irrigation Pumpers Association ("Irrigators" or "IIPA") filed written comments and the testimony of Anthony J. Yankel. The Irrigators only commented in regard to Idaho Power's request for the recovery of reduced revenues. The Irrigators, in general, support Idaho Power's request for recovery of reduced revenues associated with the Irrigation Load Reduction Program. However, they disagree with the methods of calculation and the amount of reduced revenue that should be recovered. The Irrigators contend that certain adjustments are appropriate to ensure that the Company only recovers actual reduced revenues without realizing a windfall. Specifically, the Irrigators proposed four adjustments to the Company's reduced revenue calculation that would net to $4,749,075 and reduce rates for Idaho Power ratepayers by $3,633,042 after jurisdictional allocation and sharing.

Staff Comments

1. Irrigation Load Reduction Program

Staff audited the amounts requested by Idaho Power for the Irrigation Load Reduction Program to verify all costs claimed by the Company. Staff also reviewed a random sample of customer accounts and determined that they were accounted for properly. Staff also verified that the amounts requested by the Company are based on the best information available at the time.

During its audit, Staff and the Company realized that a number of true-ups were needed to account for meter reading errors, customer charges, additions and deletions of metered locations, changes in the method of calculation and reporting, and other items. Staff stated these changes made it impossible to calculate the full cost of the Program until these true-ups are quantified in the near future.

For purposes of the current Application Staff recommended that $63,162,233 is the appropriate amount to include in the PCA calculation for the period through September 2001 before the sharing percentage and the Idaho allocation. After these allocations are made, Staff calculated the Idaho PCA portion to be $48,319,108, subject to additional true-ups to the April-September amounts as more information becomes available. Staff reserved the right to audit the additional true-ups for reasonableness as they become available.

Staff also found that some participants in the Program were paid for energy that they did not save. Idaho Power must collect the overpayments from these customers. These costs should not be borne by other ratepayers. Staff recommended that the Company be required to track these overpayments and exclude them from irrigation load reduction costs that are included in the PCA.

Addressing the reduced revenues issue, Staff noted that the Company reduced its initial calculation by 1.684¢ per kWh to account for a credit already incorporated in the PCA when actual energy sales are reduced. This prevented a double counting of this portion of reduced revenue. The Company also agreed to decrease the reduced revenue amount by the cost of line losses that it does not incur when the energy is not actually delivered. Average delivery losses are 10.8 percent of delivered energy for irrigation customers taking service at the secondary voltage level. Furthermore, because reduced revenue is to be included in the PCA, it should be jurisdictionally allocated and further reduced by 10 percent before it is finally deferred for future recovery from ratepayers. Attachment A demonstrates this calculation for a 1 kWh load reduction payment. The proposed methodology produces a cost that will be passed on to Idaho ratepayers of approximately 16.75¢ per kWh for every kWh bought back.

Staff's general position regarding the recovery of reduced revenues in this case remains unchanged from that summarized in Commission Order No. 28699. Thus, Staff recommended that Idaho Power recover at least a portion of reduced revenues despite past Commission rulings to the contrary. Lobb, Tr. at pp. 42-43. Staff also recommended that the methodology for calculating reduced revenues as proposed by Idaho Power be approved with certain adjustments and the Company be allowed to recover amounts that were calculated as a result through its PCA.

2. Astaris Load Reduction Program

Staff audited the Astaris load reduction transactions for the period through September 2001, and found that Idaho Power paid Astaris the full contract amount of $55,035,321 less $460,270 in penalties for small portions of the 50 MW used by Astaris. This nets to $54,575,051. The Idaho jurisdictional share and PCA sharing reduce this amount to $41,749,914. Staff reviewed the calculation of this amount and found it accurate. Staff also noted that reduced revenues are not an issue in the Astaris Load Reduction Program.

The Company and Staff have agreed to two other adjustments to the Astaris load reduction costs that are similar to cost adjustments previously discussed in the irrigation buy-back program. Idaho Power has agreed to reduce program costs for line losses not incurred and to include 120 MW of Astaris load each month in the "Actual Firm Load" for the load adjustment calculation in the PCA. Including the Astaris load at 120 MW prevents the PCA calculation from automatically including 1.684¢ per kWh of reduced revenue when there is none as previously discussed. These adjustments are not included in the booked amounts through September 2001.

<u>Idaho Power Reply Comments</u>

In its reply comments Idaho Power addressed the comments from the public, the Irrigators' and Staff.

Idaho Power categorized what it believes were the three main issues that were brought up by public comments: 1) the programs have not been successful; 2) the Company has lost money on these programs; and 3) a belief that the Company is applying for a rate increase in this Application. First, Idaho Power contended that voluntary load reduction programs were successful because, in concert with the efforts of other Northwest utilities, a reduction in the demand for electricity occurred. Idaho Power also alleges that this resulted in a substantial decline in the price for wholesale electricity. Second, by using these programs, Idaho Power attempted to acquire load reductions at rates that at the time were lower than those on the wholesale market. Finally, the Company stated that it was not applying for an increase in rates through its Application. In conclusion the Company maintained that it has only followed mandated procedures in order to preserve and include these amounts in the PCA proceeding.

Idaho Power also disagreed with the three proposed modifications/reductions to its reduced revenue calculations that were proposed by the Idaho Irrigation Pumpers Association. The Company did not address the Irrigators' contention that there were two computational errors that resulted in an inappropriate decrease in lost revenues of $766,412.

The Company's reply comments reiterated its request that Astaris and Irrigation Load Reduction costs be audited and approved through year-end as part of this case. Idaho Power also requested that the interest rate applied to deferred balances resulting from these Programs accrue at a rate of 6%.

COMMISSION FINDINGS AND DISCUSSION

1. Irrigation Load Reduction Program

a. Direct Costs

The Commission approved the Irrigation Load Reduction Program because it found that the public interest would be served by providing the opportunity for the Company's customers to reduce their electric consumption in a time of anticipated shortage and extremely high wholesale prices. Order No. 28699. Allowing Idaho Power to pay irrigators for energy reductions rather than purchasing needed power on the wholesale market would lower total power costs. In addition, paying irrigators to reduce load retained money in Idaho that could have gone to out of state power suppliers. *Id.*

Considering the history of this Program and the record in this case, the Commission finds that the $48,319,108 in direct costs resulting from payments by Idaho Power to Irrigators for their load reductions through September 2001 were reasonably and prudently incurred. Accordingly, the Commission finds that these direct costs shall be included in the 2002/2003 PCA deferral. However, this amount shall be subject to appropriate adjustments that will be determined as more information becomes available. These adjustments will include meter reading errors, customer changes, additions and deletions of metered locations, changes in method of calculation and reporting, line losses and other items. As soon as these adjustments are known Idaho Power shall report them to the Commission for its review. These adjustments shall be presented to the Commission no later than the date for the Company's PCA filing.

b. Reduced/Lost Revenues

In its Application Idaho Power requests that the Commission include reduced revenue costs that it claims to have incurred as a result of the Irrigation Load Reduction Program in the 2002/2003 PCA year. Idaho Power and Staff quantified the amount that is alleged to have accrued through September 2001 at approximately $9,783,625. We decline to include these costs in the 2002/2003 PCA year.

In Order No. 28699 we stated, "direct costs and lost revenue impacts of this Program <u>may</u> be treated as a purchased power expense in the Company's Power Cost Adjustment ("PCA") mechanism." Order No. 28699 at p. 12 (emphasis added). This Commission finding did not guarantee that Idaho Power was entitled to recovery of alleged reduced/lost revenues that resulted from this Program. Rather, the Commission merely recognized that the issue of recovery of these amounts would be considered. Thus, any amount of reduced revenue for which the Company would later seek recovery had to be properly accounted for and subsequently reviewed by the Commission.

This issue has been thoroughly addressed and argued by Idaho Power and supported by the Commission Staff. However, the Commission remains unconvinced that Idaho Power should recover reduced revenues in this case. At the time this Program was approved, volatility in the regional power market and below normal streamflows had pushed the market price of power to unprecedented levels. This Program was intended to allow Idaho Power to cost-effectively reduce its total purchase power expense during 2001, thereby benefiting all of its customers. The Commission finds that in the context of the market situation that existed at the time this Program was approved, it was the prudent if not required action for the Company to take and that further incentives, such as the recovery of reduced revenues, to develop and utilize a program of this type were not needed.

In the Order approving the implementation and operation of the Irrigation Load Reduction Program, the Commission noted the Company's position that recovery of reduced revenues was critical to its willingness to proceed with this Program because they constituted a real cost. Order No. 28699 at p. 5, Case No. IPC-E-01-3. The Commission is concerned that Idaho Power's position regarding reduced revenues may be an indication that it will be hesitant in the future to develop further demand-side management programs unless it recovers reduced revenues. If this is the case the Commission believes that Idaho Power may be acting at its peril. Cost-effective DSM resources are generally also least-cost resources and they are of significant value to the Company, to its shareholders, to its customers and to the general community. To not acquire such resources might constitute imprudence in the legal meaning of the word. Accordingly, we expect Idaho Power and all utilities in this state to operate effectively and efficiently in the long-term best interests of their shareholders and customers.

Finally, in general, the Commission rejects the "no losers test." The societal viewpoint dictates that Idaho is best served by not permitting the "no losers" price to be a ceiling on load reduction programs or conservation measures costs.

Based on the foregoing, the Commission denies Idaho Power's request for the recovery of reduced/lost revenues in this case.

2. Astaris Load Reduction Program

In approving the Letter Agreement between Idaho Power and Astaris the Commission found this Program had considerable value because it made 50 MW of reduced load available to serve all Idaho Power system customers during a time of volatile energy market prices and reduced generation capacity due to low water conditions. Order No. 28695. The hope in approving this Program was that it would save Idaho Power and ultimately ratepayers millions of dollars in purchased power costs. Moreover, the Commission found that it was in the public interest at the time. The Commission's Order approving the load reduction stated that prudently incurred payments made by Idaho Power to Astaris for load reductions should be treated like a purchase power expense and then flowed through Idaho Power's PCA mechanism. Further, in order to monitor the costs and any benefits the Commission ordered the Company to establish subaccounts to specifically track the results of this Program. Finally, we required that Idaho Power's PCA filing would include a separate line to identify costs of this Agreement.

In its Application, Idaho Power requests that the $41,749,914 in direct costs that resulted from payments made to Astaris for its 50 MW load reduction under the Letter Agreement Amendment to the Electric Service Agreement through September 2001 be included in the 2002/2003 PCA year. After considering the record in this matter the Commission finds that this amount (as adjusted below) was reasonably and prudently incurred by Idaho Power Company and shall be included in its 2002/2003 PCA year. The Commission also adopts the two adjustments agreed upon by Staff and the Company that heretofore have not been included. First, a reduction in program costs shall occur for line losses not incurred; and, second to include 120 MW of Astaris load each month in the "Actual Firm Load" for the load adjustment calculation in the PCA. Including the Astaris load at 120 MW prevents the PCA calculation from automatically including 1.684¢ per kWh of lost revenue when there is no lost revenue. We find these two adjustments to be reasonable.

3. Interest Rate on Deferred Balances

Idaho Power has requested that interest accrue at a rate of 6% on deferred balances that result from these Programs. The Commission finds that this request and rate is customary and reasonable and shall be granted. Idaho Power shall book interest on these Programs consistent with PCA methodology using the approved interest rate of 6% for customer deposits established in 2001.

4. Supplemental Filings

The Commission finds that as additional costs become known for these Programs Idaho Power may make a supplemental filing requesting authority to include these amounts in the 2002/2003 PCA year.

5. Application for Intervenor Funding

On December 10, 2001, the Idaho Irrigation Pumpers Association, Inc. filed an Application for Intervenor Funding pursuant to *Idaho Code* § 61-617A and Rule 162 of the Commission's Rules of Procedure, IDAPA 31.01.01.162. In its Petition, the Irrigators claimed that it incurred $7,314.19 in fees and costs while participating in this case. Specifically, the fees and costs are: 1) legal fees and costs of $1,114.19; and 2) consulting fees of $6,200.00.

IIPA asserted that the expenses and costs incurred by the Irrigators are reasonable and were necessarily incurred. IIPA further insisted that the expenses and costs of participating in this case constitute a significant financial hardship for it. IIPA contended that it currently has less than $9,000 in the bank and substantial accounts payable as a result of participation in several proceedings filed recently by Idaho Power and PacifiCorp. IIPA also stated that it is a non-profit corporation that represents farm interests in electric utility rate matters affecting farmers in southern and central Idaho and relies solely upon dues and contributions voluntarily paid by members, together with intervenor funding to fund activities and participate in rate cases. However, IIPA alleges that member contributions have fallen because of the extremely depressed agricultural economy. Accordingly, IIPA states that it continues to be a financial hardship for it to fully participate in all rate matters affecting its members. As a result of financial constraints IIPA alleges that its participation in past cases has been selective and on a limited basis.

IIPA argued that the positions it took in these proceedings were different than those taken by the Company, Staff and other intervenors with regard to the recovery of reduced revenues/lost revenues price. Finally, IIPA contended that the position taken by it in this case addresses issues that concern the general body of users or consumers.

Idaho Power stated that it does not object to an intervenor-funding award of $7,314.19 for the Irrigators. However, the Company requested that this amount be included in the Company's deferral for recovery in next year's PCA filing.

We find that IIPA's Application in this case was timely filed and satisfies all of the requirements set forth in Rules 161-165 of the Commission's Rules of Procedure. Rule 165 of the Commission's Rules of Procedure contains the following "substantive" requirements: (a) IIPA's involvement in this case must have materially contributed to the Commission's final decision, (b) the costs of intervention awarded are reasonable in amount, (c) the costs of intervention are a significant hardship for IIPA, (d) the recommendations of the IIPA differed materially from the testimony and exhibits of Commission Staff, and (e) the IIPA addressed issues of concern to the general body of ratepayers.

We further find that IIPA's involvement in this case materially contributed to our understanding of the issues addressed in this case and the decision finally reached. We also find that while IIPA's involvement addressed issues primarily of concern to the irrigation customer class, that involvement also addressed issues of concern to the general body of ratepayers. We find that these costs and expenses constitute a significant financial hardship for this organization if they were not recovered. We find that the application for intervenor funding of IIPA complies with the letter and spirit of *Idaho Code* § 61-617A. Thus, it is fair, just and reasonable to allow IIPA to recover its fees and costs associated therefrom in the sum of $7,314.19.

The Commission finds that Idaho Power shall include the above amount as an expense to be recovered in the Company's 2002/2003 PCA proceeding from the irrigation class.

O R D E R

IT IS HEREBY ORDERED that the Application of Idaho Power Company for an Order approving the inclusion of costs from the Irrigation Load Reduction Program is granted in part. Accordingly, Idaho Power is authorized to include the direct costs it has accrued through September 2001 from this Program, amounting to approximately $48,319,108 subject to adjustments, in the 2002/2003 PCA year.

IT IS FURTHER ORDERED that the adjustments to the direct costs recommended by Staff and agreed to by Idaho Power and Staff are approved. Idaho Power Company shall report to the Commission no later than the filing of its PCA proceeding the necessary adjustments so that the direct costs of this Program shall be modified appropriately.

IT IS FURTHER ORDERED that Idaho Power Company's Application is denied in part. Specifically, the Company's request for recovery of reduced/lost revenues alleged to have been incurred by Idaho Power through the Irrigation Load Reduction Program is denied.

IT IS FURTHER ORDERED that the Application of Idaho Power Company for an Order approving the inclusion of costs from the Astaris Load Reduction Program is granted. Accordingly, Idaho Power is authorized to include approximately $41,749,914 in direct costs, subject to adjustments, resulting from this Program in the 2002/2003 PCA year.

IT IS FURTHER ORDERED that the adjustments to the direct costs of the Astaris Load Reduction Program agreed upon by Idaho Power and Staff are adopted and approved. Idaho Power Company shall report to the Commission no later than the filing of its PCA proceeding the necessary adjustments so that the direct costs of this Program shall be modified appropriately.

IT IS FURTHER ORDERED that interest shall accrue on any deferred balances resulting from these Programs at a rate of 6% consistent with the PCA methodology using the approved interest rate on customer deposits for 2001.

IT IS FURTHER ORDERED that as Idaho Power books additional costs to the PCA for these Programs it may make additional filings to include these amounts in the 2002/2003 PCA.

IT IS FURTHER ORDERED that the Idaho Irrigation Pumpers Association is awarded intervenor funding to be paid by Idaho Power. The Commission awards $7,314.19 to IIPA for fees and costs.

IT IS FURTHER ORDERED that Idaho Power shall include the cost of this award of intervenor funding to IIPA as an expense to be recovered in the Company's 2002/2003 PCA proceeding from the irrigation class.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th day of April 2002.

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PAUL KJELLANDER, PRESIDENT

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MARSHA H. SMITH, COMMISSIONER

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DENNIS S. HANSEN, COMMISSIONER

ATTEST:

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Jean D. Jewell
Commission Secretary

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